



Egypt: Background and U.S. Relations

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Summary

This report provides a brief overview of the key issues for Congress related to Egypt and information on U.S. foreign aid to Egypt. The United States has provided significant military and economic assistance to Egypt since the late 1970s. U.S. policy makers have routinely justified aid to Egypt as an investment in regional stability, built primarily on long-running military cooperation and on sustaining the March 1979 Egyptian-Israeli peace treaty. Successive U.S. Administrations have viewed Egypt's government as generally influencing developments in the Middle East in line with U.S. interests. U.S. policy makers are now grappling with complex questions about the future of U.S.-Egypt relations, and these debates and events in Egypt are shaping consideration of appropriations and authorization legislation in the 112th Congress.

For Obama Administration officials and the U.S. military, there is a clear desire to engage Morsi's new government on a host of issues, including immediate economic support and Sinai security. For others, opportunities for renewed diplomacy may be overshadowed by disruptive political trends that have been unleashed by the so-called Arab awakening and allowed for more expression of anti-Americanism, radical Islamist politics, antipathy toward Israel, and sectarianism, amongst others. The events of September 11, 2012, in which a visiting U.S. business delegation dispatched to Egypt to expand trade and investment were in Cairo while an angry mob attacked the U.S. Embassy, may be a harbinger of increased dissonance in U.S.-Egyptian bilateral relations for years to come.

For FY2013, President Obama is requesting \$1.55 billion in total bilateral aid to Egypt (\$1.3 billion in military aid and \$250 million in economic aid). The aid levels requested are unchanged from FY2012 appropriations. According to multiple reports, the Administration is currently negotiating with Egypt the terms for obligating funds that have already been appropriated by Congress, such as up to \$1 billion in bilateral debt relief and the seed capital for an enterprise fund. Egypt currently owes the United States approximately \$3.2 billion from decades-old food aid loans. In order to provide debt relief, U.S. government agencies are required to value U.S. loans, such as bilateral debt owed to the United States, on a net present value basis rather than at their face value, and an appropriation by Congress of the estimated amount of debt relief is required in advance. P.L. 112-74 did provide that ESF funds appropriated for Egypt in the Act and from prior Acts could be used for an Egypt debt initiative. Moreover, according to P.L. 112-74, bilateral debt relief funds would be a "swap" and channeled into programs that improve "the lives of the Egyptian people through education, investment in jobs and skills (including secondary and vocational education), and access to finance for small and medium enterprises with emphasis on expanding opportunities for women, as well as other appropriate market-reform and economic growth activities."

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Overview

After a year and a half of chaotic political transition in Egypt, newly elected President Muhammad Morsi has consolidated power around his administration and a broader network of Muslim Brotherhood supporters at the expense of the military, a development few would have conceived of just months earlier.¹ The military, embarrassed by an August 2012 attack against its forces by Sinai-based militants, became weakened politically, and President Morsi capitalized on the military's vulnerability in the aftermath of the attack by dismissing several high level intelligence leaders and governors. When those moves went unchallenged by the military, the President then dismissed Egypt's long-time Defense Minister, 77-year-old Field Marshal Mohamed Hussein Tantawi, and other officers. The military, perhaps fatigued by the burden of governance and desirous of regaining the public's confidence, appears to have willingly acquiesced to Morsi's maneuvers.² On August 12, Morsi also issued a new constitutional declaration that abrogated a June 2012 military-issued document. The new version restores full executive authority to the president and provides him with interim legislative powers until the election of a new parliament following the completion of a new constitution.

Since his consolidation of power, President Morsi has focused on crafting a more assertive and independent Egyptian foreign policy.³ To date, he has traveled to Saudi Arabia, China, and Iran, and he has upcoming plans to visit the European Union and the United States. His visit to Tehran, the first by an Egyptian leader since the 1979 Iranian revolution, came in connection with the Non Aligned Movement's summit, where he denounced Iran's Arab ally Syria, calling the Syrian government an "oppressive regime." Despite his indirect criticism of Iran, Morsi also has called for the creation of a "contact group" on Syria that includes Iran along with Egypt, Turkey, and Saudi Arabia. Morsi's foreign policy approach has been met with some degree of public approval, though critics charge that Morsi should devote more energy toward the economy and should present a specific economic reform plan to restore investor and public confidence in the economy.

For Obama Administration officials and the U.S. military, there is a clear desire to engage Morsi's new government on a host of issues, including immediate economic support and Sinai security. For others, opportunities for renewed diplomacy may be overshadowed by disruptive political trends that have been unleashed by the so-called Arab awakening and allowed for more expression of anti-Americanism, radical Islamist politics, antipathy toward Israel, and

¹ The Supreme Council of the Armed Forces (SCAF) officially ceded power to Morsi on June 30, 2012. However, due to the SCAF's last-minute changes to the constitution (June 17 declaration) and dissolution of parliament following a court case that invalidated the election of a third of lower house seats, many observers thought that President Morsi's actual governing authority would be constrained.

² Although the insider details of Morsi's "soft coup" are unknown, both sides made public efforts to portray the officers' dismissals as consensual. General Tantawi and his deputy were honored in a public ceremony and were retained by the President as "advisors." There is no indication that the former leaders of the SCAF will be tried for any possible crimes committed during the transition period. However, many former Mubarak officials, including Ahmad Shafiq, the runner-up in the presidential election, continue to be investigated for corruption while in office. Shafiq is in the United Arab Emirates, and there are charges against him alleging that he was involved in illegal land purchases. His case has been referred to a criminal court, and he may be detained should he return to Egypt.

³ For years under Mubarak, many Egyptians quietly bemoaned their country's diminished stature in both regional and global affairs.

sectarianism, amongst others. The events of September 11, 2012, in which a visiting U.S. business delegation dispatched to Egypt to expand trade and investment⁴ were in Cairo while an angry mob attacked the U.S. Embassy, may be a harbinger of increased dissonance in U.S.-Egyptian bilateral relations for years to come.⁵ On September 12, President Obama, who may have been frustrated by Egypt's lackluster response to the Embassy breach a day earlier, reportedly stated that "I don't think that we would consider them [Egypt] an ally, but we don't consider them an enemy....I think it's still a work in progress, but certainly in this situation, what we're going to expect is that they are responsive to our insistence that our embassy is protected, our personnel is protected."⁶

⁴ The 120-person U.S. business delegation consisted of several corporate executives from leading Fortune 500 companies and was the largest U.S. trade delegation ever to visit Egypt. Protests outside the U.S. Embassy since the 2011 revolution have become commonplace, though it is unclear if Egyptian authorities are providing adequate police protection outside the Embassy compound. The protest on September 11, 2012 and subsequent Embassy wall breach were in response to the release of a short U.S. film called "The Innocence of Muslims," which angered some Muslims who charged that it insulted the Prophet Muhammad.

⁵ The presence of the U.S. trade delegation also coincided with the continuation of Egypt's ongoing prosecution of foreign and domestic NGO workers. On September 9, the sixth session of the trial of 43 workers, including 19 American citizens, was adjourned. Most of the accused U.S. citizens who were given the chance to return to the United States have done so.

⁶ "Egypt May Be Bigger Concern Than Libya for White House," *New York Times*, September 13, 2012.

Figure 1. Map of Egypt



Source: Map Resources, adapted by CRS.

Domestic Politics

Drafting a Permanent Constitution

On June 12, the now-dissolved parliament approved the membership of a 100-person Constituent Assembly to draft a new permanent constitution. This Assembly was given six months to complete a draft document, which must be put to a public referendum within 15 days of the draft's release. If it is approved according to this timetable, presumably sometime in early 2013, then parliamentary elections would follow two months later. At present, the legal status of the Assembly is in question, since it was approved by the parliament that a court then ruled to be invalid. Lawsuits against the formation of the Assembly are scheduled to be examined in early October 2012. If the courts declare the present Assembly invalid, then, according to President Morsi's August 12 constitutional declaration, the president will form a new 100-member Assembly to draft the constitution, which would then have three months to produce a draft. Within 30 days of the issuance of that draft document, a public referendum would be held to

determine its approval. Within 60 days of its approval, new parliamentary elections would be held.

As the dispute over the legality of the Assembly continues, various reports suggest that the current Assembly members are making some progress on a draft document, though some of its members have resigned. Current debates include:

- *Islam and the State* – As it is currently written, Article 2 of the constitution states that “Islam is the religion of the state, Arabic is the official language, and the **principles** of Islamic Sharia are the **primary** source of legislation.” Salafis have sought to replace the word “principles” with “laws” or remove the words “primary source of” and replace it with “sole source of.” However, mainstream religious scholars, liberals, and even some Islamists object to these changes.⁷ Salafists also have proposed empowering the Islamic scholars of Al Azhar to determine if a law conforms with the principles of Sharia.
- *Form of Government* – Since the revolution, Egyptians have debated whether to retain a strong presidential system of government, revert to a parliamentary system, or create some hybrid form of rule. Typically, Islamists prefer a parliamentary system, while liberals and Coptic Christians prefer a strong presidential system in order to guarantee religious pluralism and civil law.
- *Role of the Military* – One of the most sensitive debates in Egyptian politics centers on enshrining military prerogatives and rights within the constitution itself. The SCAF, at minimum, seeks budgetary autonomy and secrecy, control over the selection of its leaders, war powers, and a formal role in formulating national security strategy and even foreign policy. According to one report, the military may seek a constitutional role as the “guarantor of the civil nature of the state” or “guarantor of constitutional principles.”⁸

Allegations of an Islamist Takeover and Debate over Press Freedom

Since President Morsi’s victory at the polls, many secularists, Coptic Christians, and supporters of the old order have alleged that the Muslim Brotherhood, once ensconced in power, will gradually seize control over various political institutions and establish a theocracy – a decades-old accusation against Islamists that became commonplace following the 1979 Iranian revolution. In recent weeks, there has been renewed focus on the democratic credentials of the Brotherhood, in light of accusations that it is seeking to control the Egyptian media and curtail freedom of speech. Others posit that competing Egyptian institutions, such as the judiciary, may serve as a counterweight to the Brotherhood.

In September 2012, many observers are suggesting that Morsi’s new government has made a noticeable effort to control state-owned media and stifle criticism against it by privately held media. As part of his new cabinet, President Morsi appointed a member of the Brotherhood’s political party as information minister. The Brotherhood-controlled upper house of parliament also made a new round of editorial appointments to state-controlled newspapers, many of whom were said to be sympathetic to Islamist political groups.

⁷ “Fight club: A concise guide to the controversies over Egypt’s new constitution,” *Al Ahram Online*, July 31, 2012.

⁸ *Al Ahram*, op.cit.

As Brotherhood opponents have employed fiery rhetoric in condemning Morsi's recent political maneuvers, the government and Brotherhood sympathizers have responded with legal action against their critics, ironically employing media legislation that predates the 2011 revolution and was used by former President Mubarak to stifle public dissent. As a result, authorities have seized newspapers and taken one television station off-air, charging its owner with inciting violence against the government. A prominent editor of one critical newspaper, *Al Dustur*, was detained on charges of insulting the president and spreading false news, but he was released pending trial following Morsi's issuing of a new law ending pre-trial detention of defendants in media-related cases. Morsi also has tried to deflect accusations that the Muslim Brotherhood seeks total control over Egyptian governance and media. Reportedly, he has tasked his vice president with establishing an independent body to review freedom of speech cases. However, the government insists that there are certain red lines when it comes to freedom of speech. According to Information Minister Abdel Maqsooud, "There is a clear difference between freedom on the one hand and libel, slander, character-assassination and incitement to murder, on the other."⁹

Economy

As a result of over a year of political unrest, Egypt's economy has stagnated (GDP has grown just 2% from July 2011 to present), and the interim military-led government has boosted social spending, leading to spiraling fiscal deficits. Though certain aspects of the economy have started to recover (such as Suez Canal revenues, oil and gas exports), foreign direct investment and tourism revenues (down 24% since 2010) remain below their previous levels. Moreover, many economists are concerned that the financial crisis in Europe will lower demand for Egyptian exports and further reduce foreign investment in the months ahead.

With a bleak short-term economic outlook and Egyptian leaders sensitive to further domestic instability, public expenditures have increased dramatically in order to reassure the population. Spending on public sector salaries (there are over 6 million Egyptian state employees) and energy and food subsidies has soared, leading to a predicted national budget deficit for 2012 of \$22-23 billion. Since February 2011, authorities have been financing the deficit by borrowing from domestic banks and using the country's foreign exchange reserves, which have diminished from nearly \$36 billion in early 2011 to \$14.4 billion (including \$4 billion in gold bullion) in July 2012.

It is unclear how a future Egyptian government will finance its fiscal deficit. Spending cuts may prove dramatically unpopular, as would inflationary policies that increase prices on basic commodities. If foreign exchange reserves continue to dwindle, it is unclear whether officials will be forced to depreciate the Egyptian pound, a move that could boost interest rates and reduce asset values, potentially stalling any recovery. Many analysts suggest that Egypt may have no choice but to increase foreign borrowing, particularly from other governments and international financial institutions, since private foreign investors may be unwilling to take the investment risk and domestic banks are overstretched. Credit rating agencies such as Moody's, Fitch, and Standard & Poor's have downgraded Egypt's sovereign credit rating multiple times over the past year. The International Monetary Fund may be a key foreign lender for Egypt, as it has offered the country \$4.8 billion in financing over 18 months to three years at a minimal interest rate. Significantly, an IMF loan would boost other investors' confidence that Egypt is on a path toward economic reform, thereby possibly paving the way for additional foreign lending (the country's

⁹ "Rights: Veil Falls Over Egyptian Media," *Inter Press Service*, August 27, 2012.

current external debt is \$33.7 billion). However, the IMF deal may have drawbacks for the Egyptian government, as it may be conditioned upon Egypt undertaking unpopular reforms and austerity measures, such as reductions in food and fuel subsidies.

Foreign Policy

Egypt, Israel, Hamas, and the Sinai Peninsula

For the United States, the status of the 1979 Israeli-Egyptian peace treaty is a major regional foreign policy priority, and there is concern that instability in Egypt will disrupt the “cold peace” that Israel and Egypt have maintained for over 30 years. In the period since the resignation of former President Mubarak, Egyptian-Israeli relations have been tense, with a spike in tensions in the immediate aftermath of the September 2011 siege of the Israeli embassy in Cairo by protestors.¹⁰ Since then, Israel has maintained a minimal diplomatic presence in Egypt, having moved most of its staff from Cairo to offices in Maadi, New Cairo, and near the Cairo International Airport.

With a Muslim Brotherhood president now leading Egypt, some commentators claim that Egypt will develop closer ties to Hamas in Gaza.¹¹ Others suggest that while some general degree of comity may exist between Palestinian and Egyptian Islamists, Egypt may move cautiously in engaging Hamas. In July 2012, Hamas officials spoke openly about the need to expand operations of the Rafah border crossing between Egypt and Gaza, the only non-Israeli controlled entry/exit point from Gaza to the outside world. Later that month, Hamas Prime Minister Ismail Haniyeh met with President Morsi and the two leaders reportedly agreed to open the Rafah crossing for 12 hours each day, raise the daily limit of visiting Gazans to 1,500, and stop deporting Palestinians who arrive at Cairo International Airport without an entry visa.

On August 5, 35 unidentified gunmen attacked Egyptian troops stationed near the Israeli-Egyptian-Gaza border, killing 16. The gunmen then seized several vehicles and proceeded to attack the Israel-Gaza Kerem Shalom crossing just over the Egyptian border before being thwarted by Israeli forces. The Israeli government, which has been repeatedly warning Egypt about the security situation in the Sinai, called the attack a “wake up call” for Egypt. In the days following the attack, Egypt’s military, in order to demonstrate its resolve, avenge the killing of its soldiers, and stabilize the area, re-launched its anti-militant operation in the Sinai (dubbed “Operation Eagle,” first launched in 2011), using air power in the area for the first time in nearly four decades. Egypt also temporarily closed its border crossing with Hamas, and the army deployed armored vehicles including tanks and Apache helicopters to the Sinai. Egypt and Israel mutually agree upon any short term increase of Egypt’s military presence in the Sinai. The terms of the 1979 Israel-Egypt Peace Treaty require that.¹² Some Israeli leaders publicly expressed

¹⁰ The siege followed an August 2011 terrorist attack in Israel by Sinai-based militants that resulted in Israeli forces killing six Egyptian security personnel after crossing the Egyptian border in hot pursuit of the perpetrators. During the siege, Israeli diplomats who were gathered in the embassy’s security compound came perilously close to being confronted by the rioters before Egyptian commandos rescued the diplomats at the urging of the Obama Administration.

¹¹ In September 2012, Arab media sources reported that Egypt agreed to allow Hamas to open an office in Cairo. The two sides also formed a “joint security committee” to discuss border issues between Gaza and Egypt.

¹² Article IV (4) states that “The security arrangements provided for in paragraphs 1 and 2 of this Article may at the (continued...) ”

concern over Egypt's deployment of heavy equipment, particularly tanks, into demilitarized zones, claiming that some Egyptian deployments were not coordinated with Israel. In early September, one Egyptian military official stated that "Egypt is coordinating with the Israeli side over the presence of Egyptian armed forces in Sinai. They know this....The deployment of the armed forces on all the territory of Sinai is not a violation of the peace treaty between Egypt and Israel."¹³

Judging from previous responses to Sinai terrorism, Egypt and other parties often neglect full consideration of the factors underlying the area's destabilization. Many analysts suggest that Egypt's previous responses to security incidents in the Sinai focus solely on military measures and often lead to alienation and radicalization of Sinai residents. For example, authorities often detain local suspects in large numbers and for prolonged periods of time, breeding resentment and revenge attacks against police in the area. Egyptian development policy in the Sinai also may be inadequate to address the range of economic needs and political grievances of Sinai's population. Many residents from local tribes describe being treated as second-class citizens, while government officials often claim that Sinai Bedouin cherish their local autonomy.

According to multiple reports, since the August 2011 attacks, the United States has attempted to assist Egypt in better securing the Sinai. According to one report, "The Pentagon is discussing a variety of options for sharing intelligence with Egypt's military and police in Sinai. They include intercepts of cellphone or radio conversations of militants suspected of plotting attacks and overhead imagery provided by aircraft — both piloted and drones — or satellites."¹⁴ Another report indicated that the Pentagon has deployed a "truck-mounted tracking system that will allow U.S. troops to monitor the deployment of Egyptian forces."¹⁵

U.S. Policy

U.S. officials have cautiously engaged the new Egyptian government and have attempted to balance the interests of maintaining close ties to the military with the need to acknowledge the legitimacy of elected civilian leaders such as President Morsi. When asked how the Administration will deal with an Islamist head of the Egyptian state, U.S. officials have stated that they will "judge by actions, not words."

Secretary of State Hillary Rodham Clinton and Secretary of Defense Leon Panetta have each separately visited Cairo for meetings with President Morsi since he took office. Deputy Secretary of State William Burns has also visited Egypt, promising to "help Egypt deal with its economic challenges, including meeting immediate financial concerns, providing debt relief, helping to create jobs and educational opportunities, and encouraging U.S. investment and tourism." In August and September 2012, Undersecretary of State for Economic Growth, Energy, and the Environment Robert D. Hormats visited Egypt to negotiate possible bilateral debt relief and, as

(...continued)

request of either party be reviewed and amended by mutual agreement of the Parties." In August 2011, Israel had granted Egypt permission to introduce additional battalions into the Sinai, but prior to the August 5, 2012 militant attack, Israeli officials had claimed that Egypt had not augmented its forces accordingly.

¹³ "Egypt, Israel coordinating on Sinai security sweep-army," *Reuters*, September 8, 2012.

¹⁴ "After Sinai Attack, U.S. and Egypt Step Up Talks on Security," *New York Times*, August 11, 2012.

¹⁵ "Militants in Egypt's Sinai pose a test for peacekeeping force," *Washington Post*, August 19, 2012.

previously mentioned, a large U.S. business delegation toured Egypt to explore possible investment there.

U.S. Foreign Aid to Egypt

Between 1948 and 2011, the United States provided Egypt with \$71.6 billion in bilateral foreign aid, including \$1.3 billion a year in military aid from 1987 to the present. Since 1979, Egypt has been the second-largest recipient, after Israel, of U.S. bilateral foreign assistance.¹⁶ In July 2007, the George W. Bush Administration signed a 10-year Memorandum of Understanding (MOU) with Israel to increase U.S. military assistance from \$2.4 billion in FY2008 to over \$3 billion by 2018. Egypt received no corresponding increase in U.S. military aid; instead, the Bush Administration pledged to continue to provide Egypt with \$1.3 billion in military aid annually, the same amount it has received annually since 1987. Unlike with Israel and, separately, with Jordan, the Bush Administration's pledge did not involve signing a bilateral MOU with the Egyptian government. Congress typically specifies a precise allocation of foreign assistance for Egypt in the foreign operations appropriations bill. Egypt receives the bulk of foreign aid funds from three primary accounts: Foreign Military Financing (FMF), Economic Support Funds (ESF), and International Military Education and Training (IMET).¹⁷

Military Aid

In FY2011, Egypt received almost a quarter of all U.S. FMF funds, and Israel received nearly 60%. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts. U.S.-Egyptian coproduction of the M1A1 Abrams Battle tank, which began in 1988, is one of the cornerstones of U.S. military assistance to Egypt. Egypt plans to acquire a total of 1,200 tanks. Under the terms of the program, a percentage of the tank's components are manufactured in Egypt at a facility on the outskirts of Cairo and the remaining parts are produced in the United States and then shipped to Egypt for final assembly. General Dynamics of Sterling Heights, MI, is the prime contractor for the program. Although there are no verifiable figures on total Egyptian military spending, it is estimated that U.S. military aid covers as much as 80% of the Defense Ministry's weapons procurement costs.¹⁸ Egypt also receives Excess Defense Articles (EDA) worth hundreds of millions of dollars annually from the U.S. Defense Department. The United States offers IMET

¹⁶ The 1979 Peace Treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and her Arab neighbors. In two separate memoranda accompanying the treaty, the United States outlined commitments to Israel and Egypt, respectively. In its letter to Israel, the Carter Administration pledged to "endeavor to take into account and will endeavor to be responsive to military and economic assistance requirements of Israel." In his letter to Egypt, former U.S. Secretary of Defense Harold Brown wrote that "the United States is prepared to enter into an expanded security relationship with Egypt with regard to the sales of military equipment and services and the financing of, at least a portion of those sales." Ultimately, the United States provided a total of \$7.3 billion to both parties in 1979. The Special International Security Assistance Act of 1979 (P.L. 96-35) provided both military and economic grants to Israel and Egypt at a ratio of 3 to 2, respectively, though this ratio was not enshrined in the treaty as Egypt would later claim.

¹⁷ Egypt also receives, though not consistently, relatively small sums from the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account and the International Narcotics Control and Law Enforcement (INCLE) account. NADR funds support counter-terrorism training through the Antiterrorism Assistance Program. INCLE funds support police training and respect for human rights in law enforcement.

¹⁸ According to one source, U.S. military assistance pays for about a third of Egypt's overall defense budget each year. See, "Three Decades of Weapons, Training for Egypt Keep U.S. in Loop," Bloomberg, February 2, 2011.

training to Egyptian officers in order to facilitate U.S.-Egyptian military cooperation over the long term. IMET assistance also makes Egypt eligible to purchase training at a reduced rate.

In addition to large amounts of annual U.S. military assistance, Egypt benefits from certain aid provisions that are available to only a few other countries. Since 2000, Egypt's FMF funds have been deposited in an interest bearing account in the Federal Reserve Bank of New York and have remained there until they are obligated. By law (P.L. 106-280), Congress must be notified if any of the interest accrued in this account is obligated. Most significantly, Egypt is allowed to set aside FMF funds for current year payments only, rather than set aside the full amount needed to meet the full cost of multi-year purchases. Cash flow financing allows Egypt to negotiate major arms purchases with U.S. defense suppliers.

Table 1. U.S. Assistance to Egypt, FY2010-FY2013 Request
(Regular and Supplemental Appropriations; Current Year \$ in Millions)

Account	FY2010	FY2011	FY2012	FY2013 Request
ESF	250.0	249.5	250.0	250.0
FMF	1,300.0	1,297.4	1,300.0	1,300.0
IMET	1.900	1.400	1.400	1.800
INCLE	1.000	1.000	.250	7.900
NADR	2.800	4.600	5.600	—
Total	1,555.7	1,553.9	1,557.25	1,559.7

Economic Aid

During the 1980s and 1990s, Egypt received large amounts of annual economic loans and grants, mainly to support large-scale USAID infrastructure projects in sanitation, education, and telecommunications.¹⁹ By the late 1990s, Congress began to scale back economic aid both to Egypt and Israel due to a 10-year agreement reached in the late 1990s known as the “Glide Path Agreement.” In January 1998, Israeli officials, sensing that their economic growth had obviated the need for that type of U.S. aid at a time when Congress sought to reduce foreign assistance expenditures, negotiated with the United States to reduce economic aid and increase military aid over a 10-year period. A 3:2 ratio that long prevailed in the overall levels of U.S. aid to Israel and Egypt was applied to the reduction in economic aid (\$60 million reduction for Israel and \$40 million reduction for Egypt), but Egypt did not receive an increase in military assistance. Thus, Congress reduced ESF aid to Egypt from \$815 million in FY1998 to \$411 million in FY2008. The Bush Administration, whose relations with then-President Hosni Mubarak suffered over the latter's reaction to the Administration's democracy agenda in the Arab world, then requested that Congress cut ESF aid by half in FY2009 to \$200 million. Congress appropriated the President's request. Upon taking office in 2009, President Obama sought a \$50 million increase in economic aid to Egypt for FY2010, which Congress then passed.

¹⁹ According to the U.S. State Department, U.S. economic aid has helped provide clean drinking water and sanitation to the city of Cairo, build more than 2,000 schools and double literacy levels, and decrease in the maternal mortality rate by over 50% and the child mortality rate by over 70%. See, U.S. State Department, Assistance to Egypt Fact Sheet, Office of the Spokesman, Washington, DC, May 19, 2011.

In prior years, ESF funds were divided into two categories: USAID projects and cash transfers.²⁰ ESF funds are allocated to a variety of sectors, including health, education, economic growth, and democracy and governance. U.S. funding for the latter has been a source of acrimony between the United States and Egypt for years, culminating in the current dispute over U.S. funding for non-governmental organizations.

U.S. Funding for Democracy Promotion in Egypt

Each year, a small portion of USAID-managed bilateral economic aid is spent on democracy promotion programs. On principle, the Mubarak government rejected U.S. assistance for democracy promotion activities, though it grudgingly accepted certain programming. On the other hand, democracy activists believe that the U.S. government, particularly during the Obama Administration and before the January 2011 popular uprising, had not been aggressive enough in supporting political reform in Egypt.

The Mubarak government staunchly opposed foreign support to independent civic groups that demanded government accountability, as well as civic groups that had not received government approval. During the Bush Administration, executive branch policymakers and Members of Congress directed some ESF toward direct support for Egyptian non-governmental organizations (NGOs).

In FY2005, Congress directed that “democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt],” language which remained in annual foreign operations appropriations legislation until FY2010 (see below).²¹ Under Mubarak, Egypt had claimed that U.S. assistance programs must be jointly negotiated and could not be unilaterally dictated by the United States. P.L. 111-117, the Consolidated Appropriations Act, FY2010, contained general legislative language on the use of U.S. funds to NGOs, stating in Section 7034:

With respect to the provision of assistance for democracy, human rights and governance activities in this Act, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the government of any foreign country.²²

P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, became law on April 15, 2011, after the resignation of former Egyptian President Hosni Mubarak, and did not contain language addressing the NGO issue.²³ Appropriations for FY2012 contain multiple conditions on all types of assistance to Egypt (discussed below).

²⁰ It is unclear if USAID is still operating the cash transfer program, as it had been scheduled to be phased out by 2011.

²¹ Congress sought to ensure that U.S. foreign assistance for Egypt was being appropriately used to promote reform. In conference report (H.Rept. 108-792) language accompanying P.L. 108-447, the FY2005 Consolidated Appropriations Act, conferees specified that “democracy and governance activities shall not be subject to the prior approval of the GoE [government of Egypt]. The managers intend this language to include NGOs and other segments of civil society that may not be registered with, or officially recognized by, the GoE. However, the managers understand that the GoE should be kept informed of funding provided pursuant to these activities.”

²² P.L. 111-117. The conference report accompanying the Act notes, “the requirements of section 7034(m)(4) of this Act shall apply with respect to the provision of assistance to Egyptian NGOs.”

²³ The FY2011 Act did contain the following provisions on economic aid to Egypt: “That of the funds appropriated under this heading, up to \$250,000,000 shall be made available for assistance for Egypt for activities that support democratic elections, promote representative and accountable governance, protect human rights, strengthen civil (continued...) ”

U.S. Foreign Aid to Egypt Since February 2011

After Mubarak's resignation in February 2011, the Administration made several aid proposals for Egypt. In the weeks following the resignation, the Obama Administration reprogrammed \$165 million in already appropriated ESF for support to Egypt's economy (\$100 million) and political transition (\$65 million). In a speech delivered at the State Department on May 19, 2011, President Obama outlined a new plan for U.S. engagement with Arab countries undergoing political transitions, such as Egypt. Major components of that plan include the following:

- Launch a \$2 billion facility in the Overseas Private Investment Corporation (OPIC) to support private investment across the region.
- Provide up to \$1 billion in bilateral debt relief to Egypt, working with the Egyptian government to invest these resources to foster growth and entrepreneurship.
- Help Egypt regain access to capital markets by providing \$1 billion in U.S.-backed loan guarantees to finance infrastructure and job creation.
- Work with Congress to create enterprise funds to invest in Tunisia and Egypt, modeled after funds that supported the transitions in Eastern Europe after the fall of the Berlin Wall. Enterprise funds are to focus on making loans to, or investments in, small- and medium-sized (SME) businesses in the fund's host country that other financial institutions are reluctant to invest in.
- Refocus the European Bank for Reconstruction and Development (EBRD) so that it may provide similar support for democratic transitions and economic modernization in the Middle East and North Africa as it has in Europe.
- Launch a comprehensive Trade and Investment Partnership Initiative in the Middle East, working with the European Union (EU), to encourage more trade within the region; build on existing agreements to promote integration with U.S. and European markets; and open the door to freer trade for countries that adopt high standards of reform and trade liberalization to construct a regional trade arrangement.

(...continued)

society and the rule of law, reduce poverty, promote equitable economic development, and expand educational opportunities for disadvantaged Egyptian youth, including through scholarship programs: Provided further, That the Secretary of State shall submit a spending plan, including a comprehensive strategy to promote democracy and development, to the Committees on Appropriations for funds provided for Egypt under this heading: Provided further, That such plan shall not be considered as meeting the notification requirements under Section 7015 of division F of P.L. 111-117 or under Section 634A of the Foreign Assistance Act of 1961: Provided further, That such funds shall be subject to the regular notification procedures of the Committees on Appropriations: Provided further, That funds appropriated under this heading shall be made available to support democratic transitions in the Middle East and North Africa, including assistance for civil society organizations and the development of democratic political parties: (b) Not later than 45 days after enactment of this Act, the Secretary of State shall submit to the Committees on Appropriations a report on Egypt detailing whether—(1) a transparent, political transition is occurring that includes the participation of a wide range of democratic opposition and civil society leaders and is responsive to their views; (2) the emergency law and other laws restricting human rights have been abrogated; protesters, political and social activists and journalists are not being arrested, detained or prosecuted for the peaceful exercise of their rights; and the government is respecting freedoms of expression, assembly and association; and (3) legal and constitutional impediments to free and fair presidential and parliamentary elections are being removed.”

The Consolidated Appropriations Act, FY2012

Overall, Congress has supported new Obama Administration proposals for Egypt but with conditions. P.L. 112-74, the Consolidated Appropriations Act, 2012, provides the full request for Egypt (\$1.55 billion), authorizes debt relief, and authorizes and appropriates funding for the creation of an enterprise fund to promote private sector investment. However, Section 7041 of P.L. 112-74 specifies that no funds may be made available to Egypt until the Secretary of State certifies that Egypt is meeting its obligations under the 1979 Egypt-Israel Peace Treaty. It further specifies that no military funds be provided until the Administration certifies that Egypt is supporting the transition to civilian government, including by holding free and fair elections and by implementing policies to protect freedom of expression, association, and religion, and due process of law. The Administration may waive these certifications under certain conditions. In addition, conferees directed the Secretary of State to submit a report to the Committees on Appropriations, not later than 60 days after enactment of the act, outlining steps that the Government of Egypt is taking to protect religious minorities, including Coptic Christians; prevent sectarian and gender-based violence; and hold accountable those who commit such acts.

On March 15, the *New York Times* reported that the Administration intends to obligate FY2012 military aid to Egypt by exercising the waiver authority Congress granted it in Section 7041 (c) of P.L. 112-74, the Consolidated Appropriations Act 2012.²⁴ That section would waive a provision of law requiring the Secretary of State to certify to the Committees on Appropriations that the Government of Egypt is supporting the transition to civilian government before FY2012 Foreign Military Financing to Egypt is obligated. According to the *New York Times* report, some Administration officials have argued that the certification should wait until the presidential election. However, existing FMF funding previously appropriated by Congress may be dwindling, and the Egyptian military may be at risk of missing defense contract payments.²⁵

The Secretary of State exercised the waiver on March 23. In an accompanying statement, a State Department spokesperson said that “the secretary’s decision to waive is also designed to demonstrate our strong support for Egypt’s enduring role as a security partner and leader in promoting regional stability and peace.”

Latest Foreign Aid Developments

For FY2013, President Obama is requesting \$1.55 billion in total bilateral aid to Egypt (\$1.3 billion in military aid and \$250 million in economic aid). The aid levels requested are unchanged from FY2012 appropriations.

According to multiple reports, the Administration is currently negotiating with Egypt the terms for obligating funds that have already been appropriated by Congress, such as up to \$1 billion in bilateral debt relief and the seed capital for the enterprise fund mentioned above. Egypt currently owes the United States approximately \$3.2 billion from decades-old food aid loans. In order to provide debt relief, U.S. government agencies are required to value U.S. loans, such as bilateral debt owed to the United States, on a net present value basis rather than at their face value, and an appropriation by Congress of the estimated amount of debt relief is required in advance. P.L. 112-74 did provide that ESF funds appropriated for Egypt in the Act and from prior Acts could be

²⁴ “Despite Rights Concerns, U.S. Plans to Resume Egypt Aid,” *New York Times*, March 15, 2012.

²⁵ *op.cit.*

used for an Egypt debt initiative. Moreover, according to P.L. 112-74, bilateral debt relief funds would be a “swap” and channeled into programs that improve “the lives of the Egyptian people through education, investment in jobs and skills (including secondary and vocational education), and access to finance for small and medium enterprises with emphasis on expanding opportunities for women, as well as other appropriate market-reform and economic growth activities.”

Given the rampant anti-Americanism permeating Egyptian politics at the moment and general concern over the intentions of the Muslim Brotherhood in Egypt, some lawmakers may call for cuts to Egypt’s assistance in the future. However, according to one report, some American and Israeli officials have “sought to assure members of Congress that assistance should proceed, despite reservations about the Muslim Brotherhood’s political rise. They have argued that persistently high unemployment, especially among women and young people, could undermine Mr. Morsi’s government, causing further instability in Egypt and beyond.”²⁶

FY2013 State and Foreign Operations Appropriations Bills

House (H.R. 5857)—The House bill provides the full Administration request for Egypt of \$250 million in ESF and \$1.3 billion in FMF. It includes a number of specific directives, including:

- Section 7042 of the bill contains a certification that no funds may be made available for Egypt unless the Secretary of State certifies to the Committees on Appropriations that Egypt’s central government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.
- The bill also contains a requirement stating that prior to obligations of ESF and FMF, the Secretary of State shall certify that the Government of Egypt has (1) completed the transition to civilian government, including holding free and fair elections; and (2) is implementing policies to protect freedom of expression, association, and religion, and due process of law. The Secretary of State may waive these requirements if the Secretary determines and reports to the Committees on Appropriations that to do so is in the national security interest of the United States. The bill states that such a determination and report shall include a detailed justification for such waiver and that the Secretary of State shall consult with the Committees on Appropriations prior to waiving such requirements.
- In addition, the Committee on Appropriations must be consulted prior to the transfer of FMF funds to an interest-bearing account for Egypt. The committee also must be notified 15 days in advance of the obligation of funds for Egypt.
- The committee also directs the Secretary of State to submit a report to the Committees on Appropriations, not later than 90 days after enactment of this act, detailing the status of human rights within Egypt. The report should include whether the Government of Egypt is providing adequate protection for religious minorities, including protection of Coptic Christians, their property, and places of worship.

²⁶ “To Back Democracy, U.S. Prepares to Cut \$1 Billion From Egypt’s Debt,” *New York Times*, September 3, 2012.

- The committee directs the Secretary of State to report to the Committees on Appropriations, not later than 90 days after enactment of this act, on all assistance provided under this heading for Egypt from fiscal year 2008 through 2012. The report should include the following: (1) the ministries, agencies, or instrumentalities of the Government of Egypt that received funding; (2) United States, international, or Egyptian organizations that received funding; (3) a description of the purpose of each program, project, or activity; (4) whether each program, project, or activity complied with mandatory audit requirements; and (5) a description of whether each program, project, or activity fulfilled its stated purpose.
- Section 7032 of the bill contains a passage stating that “None of the funds appropriated or otherwise made available by title III of this Act may be obligated for direct Government-to-Government assistance if such assistance is to a government that is actively and significantly interfering with the operation of civil society organizations.” This restriction does not specifically refer to Egypt but could possibly apply to some economic aid to Egypt should its government obstruct operations of non-governmental organizations.

Senate (S. 3241)—The Senate bill also contains most of the Administration request for Egypt, though it “reduces assistance for Egypt under ESF by an amount equal to the amount posted as bail in February 2012 for members of United States NGOs operating in Egypt.” The Senate bill includes the following provisions:

- “None of the funds appropriated under titles III and IV of this Act and in prior Acts making appropriations for the Department of State, foreign operations, and related programs may be made available for assistance for the Government of Egypt unless the Secretary of State certifies to the Committees on Appropriations that such government is meeting its obligations under the 1979 Egypt-Israel Peace Treaty.”
- “The President shall submit to the Committees on Appropriations, concurrent with the fiscal year 2014 budget request, a comprehensive review of United States assistance for Egypt, including the strategic purposes and mechanisms for disbursing such assistance, and specific programs to be conducted in furtherance of security sector and other reforms.”
- “Funds appropriated by this act under the heading ‘Foreign Military Financing Program’ for assistance for Egypt shall be made available for border security programs in the Sinai, and for purposes related to peacekeeping and disaster response: Provided, That a portion of such funds estimated to be outlayed during fiscal year 2013 may, following consultation with the Committees on Appropriations, be transferred to an interest bearing account for Egypt in the Federal Reserve Bank of New York: Provided further, That funds appropriated by this Act under the heading ‘Economic Support Fund’ shall be made available to promote security sector reform in Egypt, in accordance with section 7034(r) of this Act.”
- “Prior to the initial obligation of funds appropriated by this Act for assistance for Egypt under the heading ‘Foreign Military Financing Program’, the Secretary of State shall certify to the Committees on Appropriations that the Government of Egypt is a democratically elected civilian government that is implementing

policies to—(A) provide civilian control over, and public disclosure of, the military and police budgets; (B) fully repeal the Emergency Law; and (C) protect judicial independence; freedom of expression, association, assembly, and religion; the right of political opposition parties, civil society organizations, and journalists to operate without harassment or interference; and due process of law. The Secretary of State, after consultation with the Committees on Appropriations, may waive the requirements of paragraphs (1) and (4) if the Secretary determines and reports to the Committees on Appropriations that to do so is important to the national security interest of the United States: Provided, That such determination and report shall include a detailed justification for such waiver.”

Table 2. Top 10 recipients of U.S. Foreign Assistance, FY2012 and FY2013 Req.
(in millions)

FY2012		FY2013 Req.	
1. Israel	\$3,075	1. Israel	\$3,100
2. Afghanistan	\$2,327	2. Afghanistan	\$2,505
3. Pakistan	\$2,102	3. Pakistan	\$2,228
4. Iraq	\$1,683	4. Iraq	\$2,045
5. Egypt	\$1,557	5. Egypt	\$1,563
6. Jordan	\$676	6. Jordan	\$671
7. Kenya	\$652	7. Nigeria	\$599
8. Nigeria	\$625	8. Tanzania	\$571
9. Ethiopia	\$580	9. South Africa	\$489
10. Tanzania	\$531	10. Kenya	\$460

Source: Allocation tables provided to CRS by the Department of State, F Bureau. Does not include funding from independent agencies such as MCC, which, if included, could change the ranking of Tanzania.

Table 3. U.S. Foreign Assistance to Egypt
(\$ in millions)

Fiscal Year	Economic	Military	IMET	Total
1948-1997	23,288.6	22,353.5	27.3	45,669.4
1998	815.0	1,300.0	1.0	2,116.0
1999	775.0	1,300.0	1.0	2,076.0
2000	727.3	1,300.0	1.0	2,028.3
2001	695.0	1,300.0	1.0	1,996.0
2002	655.0	1,300.0	1.0	1,956.0
2003	911.0	1,300.0	1.2	2,212.2
2004	571.6	1,292.3	1.4	1,865.3
2005	530.7	1,289.6	1.2	1,821.5
2006	490.0	1,287.0	1.2	1,778.2
2007	450.0	1,300.0	1.3	1,751.3
2008	411.6	1,289.4	1.2	1,702.2
2009	250.0	1,300.0	1.3	1,551.3
2010	250.0	1,300.0	1.9	1,551.9
2011	249.5	1,297.4	1.4	1,548.3
Total	31,070.3	40,509.2	43.14	71,623.9

Table 4. U.S. Foreign Assistance to Egypt, 1946-1997

(\$ in millions)

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1946	9.6	—	—	—	9.3 Surplus 0.3 UNWRA	—	—	—	—	—	—
1948	1.4	—	—	—	1.4 Surplus	—	—	—	—	—	—
1951	0.1	—	—	—	0.1 Tech Asst	—	—	—	—	—	—
1952	1.2	—	—	—	—	—	0.4	—	—	—	0.8
1953	12.9	—	—	—	—	—	12.9	—	—	—	—
1954	4.0	—	—	—	—	—	3.3	—	—	—	0.7
1955	66.3	—	—	—	—	7.5	35.3	—	—	—	23.5
1956	33.3	—	—	—	—	—	2.6	—	—	13.2	17.5
1957	1.0	—	—	—	—	—	0.7	—	—	—	0.3
1958	0.6	—	—	—	—	—	0.0	—	—	—	0.6
1959	44.8	—	—	—	—	—	2.0	—	—	33.9	8.9
1960	65.9	—	—	—	—	15.4	5.7	—	—	36.6	8.2
1961	73.5	—	—	—	—	—	2.3	—	—	48.6	22.6
1962	200.5	—	—	—	—	20.0	2.2	20	—	114.0	44.3
1963	146.7	—	—	—	—	36.3	2.3	10	—	78.5	19.6
1964	95.5	—	—	—	—	—	1.4	—	—	85.2	8.9
1965	97.6	—	—	—	—	—	2.3	—	—	84.9	10.4
1966	27.6	—	—	—	—	—	1.5	—	—	16.4	9.7
1967	12.6	—	—	—	—	—	0.8	—	—	—	11.8
1972	1.5	—	—	—	—	1.5	—	—	—	—	—
1973	0.8	—	—	—	—	—	—	—	—	—	0.8
1974	21.3	—	—	—	—	—	—	—	8.5	9.5	3.3
1975	370.1	—	—	—	—	—	—	194.3	58.5	104.5	12.8
1976	464.3	—	—	—	—	—	5.4	150.0	102.8	201.7	4.4
TQ	552.5	—	—	—	—	—	—	429.0	107.8	14.6	1.1

Year	Total	Military Loan	Military Grant	I.M.E.T Grant	Misc. Economic Grant	D.A. Loan	D.A. Grant	ESF Loan	ESF Grant	P.L. 480 I	P.L. 480 II
1977	907.8	—	—	—	—	—	—	600.0	99.2	196.8	11.7
1978	943.2	—	—	0.2	0.1 Narc.	—	—	617.4	133.3	179.7	12.5
1979	2,588.5	1,500	—	0.4	—	—	—	250.0	585.0	230.7	22.4
1980	1,167.3	—	—	0.8	—	—	—	280.0	585.0	285.3	16.1
1981	1,681.2	550	—	0.8	—	—	—	70.0	759.0	272.5	28.9
1982	1,967.3	700	200.0	2.4	—	—	—	—	771.0	262.0	31.9
1983	2,332.0	900	425.0	1.9	—	—	—	—	750.0	238.3	16.8
1984	2,470.8	900	465.0	1.7	—	—	—	—	852.9	237.5	13.7
1985	2,468.7	—	1,175.0	1.7	—	—	—	—	1,065.1	213.8	13.2
1986	2,539.1	—	1,244.1	1.7	—	—	—	—	1,069.2	217.5	6.6
1987	2,317.0	—	1,300.0	1.8	—	—	—	—	819.7	191.7	3.9
1988	2,174.9	—	1,300.0	1.5	—	—	—	—	717.8	153.0	2.6
1989	2,269.6	—	1,300.0	1.5	—	—	1.5	—	815.0	150.5	1.2
1990	2,397.4	—	1,294.4	1.6	—	—	—	—	898.4	203.0	—
1991	2,300.2	—	1,300.0	1.9	—	—	—	—	780.8	165.0	52.5
1992	2,235.1	—	1,300.0	1.8	—	—	—	—	892.9	40.4	—
1993	2,052.9	—	1,300.0	1.8	—	—	—	—	747.0	—	4.1
1994	1,868.6	—	1,300.0	0.8	—	—	—	—	561.6	35.0	6.2
1995	2,414.5	—	1,300.0	1.0	—	—	0.2	—	1,113.3	—	—
1996	2,116.6	—	1,300.0	1.0	—	—	—	—	815.0	—	0.6
1997	2,116.0	—	1,300.0	1.0	—	—	—	—	815.0	—	—
Total	45,669.4	4,550	17,803.5	27.3.0	11.2	80.7	82.8	2,620.7	15,923.8	4,114.3	455.1

Notes: Totals may not add due to rounding. No U.S. aid programs for years 1947, 1949, 1950, 1968, 1969, 1970, and 1971. P.L. 480 II Grant for 1993 includes \$2.1 million in Sec. 416 food donations.

TQ = Transition Quarter; change from June to September fiscal year

* = less than \$100,000

I.M.E.T. = International Military Education and Training

UNRWA = United Nations Relief and Works Agency

Surplus = Surplus Property

Tech. Asst. = Technical Assistance

Narc. = International Narcotics Control

D. A. = Development Assistance

ESF = Economic Support Funds

P.L. 480 I = Public Law 480 (Food for Peace), Title I Loan

P.L. 480 II = Public Law 480 (Food for Peace), Title II Grant

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